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SUBJECT: BRAZIL: INTEGRATION A/S CARDOSO ON MERCOSUL

Ref a) Brasilia 2174 b) Brasilia 2177

¶1. (SBU) SUMMARY: MRE A/S for Integration Afonso Cardoso stressed the political importance of Mercosul for Brazil as a unifying force for economic development in a recent meeting with EconCouns. Cardoso underlined his views on Mercosul's strengths, highlighted recent integration decisions he felt would have important political and economic implications in the region, and reviewed on-going internal and regional Mercosul progress on trade issues. Cardoso stressed Mercosul had taught national companies how to compete globally, had helped the region acknowledge and address development disparities, was creating mechanisms to enhance political buy-in for economic integration, and fundamentally provided motivation for its members to work together rather than at cross-purposes. END SUMMARY

¶2. (U) Afonso Cardoso is the Director of the Integration Department (A/S equivalent) at MRE, reporting to U/S for South America Enio Cordeiro. Cardoso expects to take up his new duties as Ambassador to Angola in January. With his departure, MRE is splitting his Integration Department, which is responsible for Mercosul, into two Departments. The Internal Integration Department, headed by former DCM to Argentina Bruno Bath, is to be responsible for the "internal everyday life" of Mercosul (the various internal working groups and committees). The External Integration Department, led by Paulo Franca coming from UNESCO Paris, is to be responsible for ALADI negotiations as well as Mercosul negotiations in the region, such as with Mexico and Central America (NOTE: see ref a regarding responsibility for Mercosul negotiations outside South America). Both new Department heads have previously served in the Integration Department.

Mercosul

¶3. (SBU) The ultimate objective of Mercosul, stated Cardoso, is not simply to create a strong customs union among Mercosul members. Mercosul countries aim to solidify their position internationally and become more effective as a united group voice. He asserted that Mercosul is both a Customs Union and a Free Trade Area. He acknowledged exceptions to the CXT, but said they were few and that Uruguay and Paraguay had more than Argentina and Brazil. Cardoso claimed that the "only areas where trade is not completely free among us is sugar and automotive." He said auto sector is now

covered by a series of bilateral agreements between individual Mercosul members. Member countries are currently working on a Mercosul Automotive Policy to liberalize intra-Mercosul trade, which Cardoso was "confident" would be agreed in 2008. On sugar, "even our Mercosul partners are afraid of us," joked Cardoso. However, he added, ethanol is beginning to change the equation as other Mercosul members begin to produce more of the biofuel, an evolution Brazil welcomes. Cardoso said Brazil hopes, as a result, other Mercosul members' protectionism against its commodity sugar will decrease over time.

¶4. (U) He emphasized that Mercosul had provided a space and an opportunity for companies in the region to have a first taste of expanding beyond their own borders, learning to become multinationals instead of national companies and developing strategies to expand globally. Cardoso underlined that Mercosul had helped its economic actors learn regionally in order to qualify themselves to act internationally. Cardoso emphasized both the political and economic significance of this development as Brazilian and partners companies become important players in the global economy.

Moving Toward Integration: Mercosul Structural Convergence Fund and Parliament

¶5. (U) Until 2003, Mercosul members did not discuss development assymmetries among themselves, according to Cardoso. From 2003 on, the four agreed that if they wanted to achieve real integration, not just trading relationships, assymmetries would need to be recognized and addressed. Cardoso characterized the establishment of the Mercosul Structural Convergence Fund in 2006 as "a turning point;"

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the first time developing countries created a financing mechanism by themselves and for themselves. Cardoso stressed that the political decision actually to acknowledge asymmetric development among Mercosul members had enormous implications in helping the four countries work more effectively together politically and economically. Cardoso emphasized that countering limitations to further integration caused by fears that Paraguay and Uruguay could not keep pace was in Brazil and Argentina's interest as well as that of the smaller countries. The Fund's annual endowment is 100 million dollars (the lion's share from Brazil and Argentina and symbolic contributions from Uruguay and Paraguay; disbursements are in inverse proportion) to finance regional projects. The fund is also intended to finance national projects to improve physical and social infrastructure. For example, the fund is being used to combat Foot and Mouth Disease in the region and has, per Cardoso, funded a waste management project as well as a road repair project in Uruguay. All projects must be approved by all four governments.

¶6. (SBU) Cardoso felt that the decision to create a Mercosul Parliament in 2010 would also eventually be significant in Mercosul's evolution. While details remain in negotiation (number of seats per country, etc), Cardoso felt the symbolic and, eventually, political impact of a Congress directly elected by the citizens of the region had enormous long-term implications for regional integration. The Parliament would be "extremely important to create a political legitimacy for economic integration issues." Cardoso added he did not mean in the next two or three years, "more like twenty years."

¶7. (U) Finally, Cardoso noted that Brazilian and Argentinean agreement to move toward settling accounts in local currencies was an important integration step that one day could be expanded to include Paraguay and Uruguay when their Central Banks are in a position to participate.

Mercosul Internal Work

¶8. (SBU) Cardoso commented that "it can be daunting to keep track"

of all the work within Mercosul to ensure progress is made. Cardoso said members discuss moving toward common SPS and TBT standards, "but progress is tough." He added members are also working on Mutual Recognition Agreements (MRAs), "which are easier." He said Brazil's standards body IMMETRO is developing an inventory of standards to work on with Argentina and Uruguay. With Paraguay, he said, work is more concentrated on helping that country develop standards competency; MRAs would be for a later stage. On investment, there is "lots of talk, little progress." Mercosul has an agreed services protocol, and in the near future, Cardoso expected Mercosul would conclude its first external agreement on services, with Chile.

FTAs, ALADI, ASSOCIATE MEMBERS, NEW MEMBERS

¶9. (SBU) Cardoso asserted that Brazil can no longer negotiate bilateral FTAs; new FTAs must be negotiated via Mercosul. Cardoso affirmed that Brazil is pursuing starting FTA negotiations with Mexico (ref B). Mercosul has put forward a request to negotiate, but Mexico has not as yet affirmed willingness to engage, according to Cardoso. He noted that Mexico already has much more ambitious bilateral market access agreements with Argentina, Paraguay and Uruguay than with Brazil (Brazil's agreement only addresses the auto sector). He predicted that Mexico's fear of Brazil's agro-business sector will be the main difficulty in convincing Mexico to negotiate with Brazil. "Mexico tells us, 'one United States is enough for us.'"

¶10. (U) He noted that individual Mercosul members also have many bilateral ALADI agreements with countries outside Mercosul. These agreements predate Mercosul's creation. Cardoso explained that all ALADI countries that have established FTAs with Mercosul (Chile, Bolivia and the Andeans) became Mercosul associate members. These associate members are permitted to participate in non-trade discussions (for example, on health and social issues. Cardoso

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commented that Chile and Bolivia participate quite a bit). Associate members may not participate in or observe trade negotiations. Cardoso explained that proposed new members, pending ratification (Venezuela), can participate in trade and other negotiating sessions, but have "voice but no vote."

¶11. (SBU) COMMENT: Cardoso provided a thoughtful perspective on Mercosul at the end of his tour as Department Director. By definition, Cardoso's job obligations require staunch assertions that the CXT and free trade area within Mercosul function well and with only very limited exceptions. The realities of Mercosul's significant weaknesses by accepted definitions of a customs union tell a different story. The more interesting facet of the conversation was Cardoso's emphasis on how the political and the economic are inextricably linked in thinking about Mercosul, something we have heard from diplomats at all levels in Itamaraty. For Brazil, the creation of a forum that encourages these four countries to talk together and to work together is crucial for creating the political conditions that make economic integration and development possible. With a keen appreciation of the political usefulness of the Mercosul concept, this was not an interlocutor eager to whine about the acknowledged challenges anticipated in economic negotiations when Venezuela becomes a full member. Instead, Cardoso emphasized the importance for Brazil of Mercosul as a unifying force in the region and beyond, a context in which Venezuelan membership is perceived as a positive. END COMMENT

CHICOLA